Primary Energy®

2000 York Road
Suite 129
Oak Brook, IL 60523
Phone (630) 371-0505
Fax (630) 371-0673
www.primaryenergy.com

VIA E-MAIL

April 27, 2005

Mr. Harry Stoller
Ms. Michelle Mishoe
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Re : Response to Request for Comment Concerning the Implementation of Plans Presented at the Second Round of Working Group Meetings

Dear Mr. Stoller and Ms. Mishoe:

Primary Energy, Inc. is pleased to provide additional comments to the Illinois Commerce Commission responding to the implementation plans presented by ComEd and Ameren at the second round of working group meetings.

Headquartered in Oak Brook, Illinois, Primary Energy specializes in recycling waste energy to produce clean and affordable heat and power. Recycled energy is (1) electricity produced from exhaust heat from any commercial or industrial process; (2) waste gas or industrial tail gas that would otherwise be flared, incinerated or vented; and (3) electricity or equivalent mechanical energy extracted from a pressure drop in steam or any gas. Generated in this way, recycled energy capitalizes on existing resources and typically requires no additional fuel and creates no additional emissions. In order to maximize the environmental benefit of a renewable portfolio standard (RPS) to Illinois citizens and its financial benefit to Illinois manufacturers, we believe that the RPS should encourage all types of emissions-free energy, such as the production of electricity created by recycling industrial waste energy.

We commend ComEd and Ameren for the thoughtful implementation proposals that have been presented thus far. The purpose of Primary Energy's comments is to further the dialogue regarding "green-tags" or renewable energy credits (RECs) which was briefly addressed during the last round of implementation proposals. We believe that RECs should be an essential component of the implementation plan from the outset. As the Commission is aware, the essential purpose of an RPS is to impose an obligation on distribution utilities to purchase clean power. Satisfying this obligation typically incurs an above-market price premium which is recovered from ratepayers and goes to clean power generators in order to differentially encourage their participation in the marketplace. The essential goals include ensuring that: (1)

more clean power comes to market; (2) the premiums paid above market get to the generators of clean power; and (3) such premiums are as low as necessary to accomplish the RPS policy goal, since they represent increased costs to ratepayers.

A principal mechanism currently being considered for implementation is for these utilities to enter into fixed-term power purchase agreements (PPAs). In that way, the utilities would purchase both the power (i.e., the electrons, a physical commodity) and its environmental attribute (its renewable characteristic) bundled together. That is clearly one mechanism for utilities to comply with an RPS requirement, but it is not the only way and may not be the best approach.

Another mechanism would be to allow distribution utilities to procure the physical power and the environmental attribute separately. This is a common practice; 14 of the 19 states with an RPS allow for the separate purchase and trading of the environmental attribute (green-tag or REC)(See Attachment 1). The market price of the attribute can be viewed as being equal to the premium paid for renewable energy under a fixed-term PPA structure. However, there is greater flexibility and likely more supply options (which should lead to lower overall costs) if there is a RECs market.

As the Commission continues its work, we recommend that it also consider the following questions:

1. Would the flexibility of a separate RECs program reduce overall costs to the utilities and consumers?
2. Would qualifying clean, renewable or recycled energy resources be required to interconnect to a distribution utility at transmission voltages in order to be able to participate in the RPS?

We provide some further background information and discussion relating to these two questions below.

1. RECs and Overall Costs

Most commenters in the Commission's RPS workshop process agree that compliance with the RPS percentage requirements must be based on actual production (MWh) of renewable and recycled energy instead of capacity (MW) of renewable and recycled energy. As such, output from renewable and recycled energy projects must be metered, and the annual production must then be compared to the utilities' total sales in Illinois to ensure that the RPS requirement was met. Under a PPA structure, all contracted renewable and recycled energy generation would certainly be accounted for on a MWh basis.

This accounting process already lends itself very well to an implementation approach which allows utilities to acquire the renewable or recycled energy environmental attributes (RECs) alone – on a MWh-basis. Owners of renewable

or recycled energy assets would use the physical power onsite where it is produced but sell the RECs to utilities and thus contribute to the RPS portfolio.

This approach would provide as much environmental benefit as the PPA approach. When a MWh of renewable or recycled energy is produced and immediately used nearby, it displaces a MWh produced elsewhere. In fact, because electricity transmission and distribution losses can be significant, using the power close to where it is produced provides more environmental benefit than transporting it over long distances. Moreover, the power would not have to be scheduled or otherwise managed by the utility. The other RPS goals would also be met because the recycled energy project owner would receive the REC premium as intended, and recovery costs to ratepayers would be kept low because they would only need recovery for the cost of the premium.

In such an approach, the renewable or recycled energy project owner could enter into a bilateral agreement with a utility to sell only the RECs, not the power. Under this scenario, the utility (and consumers) take no risk on the power price. Utilities might also be able to enter into much shorter-term agreements for RECs than PPAs, allowing the renewable and recycled energy market to mature, resulting in lower prices over time.

In addition, it should be a much simpler matter for a renewable or recycled energy project owner and a utility to enter into an agreement to provide RECs than to execute a much more involved PPA. Further, the use of RECs would allow Illinois utilities to easily acquire the environmental attributes of qualifying resource projects from anywhere in the state, and could easily be expanded to neighboring states if desired. Were Illinois to establish a cap on the price to be paid for renewable or recycled energy under the RPS, utilities and ratepayers would almost certainly benefit from the emergence of competitive supply markets for RECs.

A final advantage to this approach is one that will be critical to the development of recycled energy projects in Illinois. Under the standard PPA approach, renewable or recycled energy project owners would sell power (along with its environmental attributes) at wholesale electricity prices. Under the REC approach, project owners would still sell environmental attributes (as RECs) but would avoid having to buy the amount of power generated by the project from the utility at retail electricity prices. The latter dynamic would contribute materially to the development of more renewable and recycled energy in Illinois because the overall price needed by project developers is lower if they are comparing their production costs to retail electricity instead of wholesale electricity prices.

2. Renewable and Recycled Energy Project Interconnection

In addition to addressing the question of whether to create competitive markets for RECs or to limit utilities' RPS procurement exclusively to PPAs, it will be

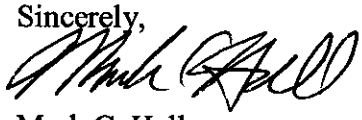
important for the Commission to address other factors that act to increase the costs of renewable and recycled energy projects – and ultimately to Illinois consumers.

Many renewable and recycled energy projects are small in nature; generating and using power at or near a load center. Accordingly, these projects would not normally connect to the electrical system at a transmission voltage but still act to decrease utility loads and losses while producing no incremental emissions. As such, it provides no benefit and increases the cost to Illinois consumers to require such project owners to incur the additional costs of interconnecting to the utility system at transmission voltage. Such an interconnection requirement adds significant capital costs to small projects which reduce the likelihood that they will get financed and built, in turn reducing the benefits that they provide.

We recommend that the Commission address this interconnection issue and also address any other issues that may impose unnecessary costs. Such costs would deter the development of qualifying projects and hamper the RPS goals

We appreciate this opportunity to comment, and welcome continued dialogue with the Commission and the working group on issues important to the effective implementation of the Illinois RPS and the Governor's innovative Sustainable Energy Plan.

Sincerely,



Mark C. Hall
Senior Vice President

Attachment 1

Summary of State RPS Mechanisms

State	Goal	Year	PPA	RECs
Arizona	1.1%	2007	X	
California	20%	2017	X	
Colorado	10%	2015	X	X
Connecticut	10%	2010	X	X
DC	11%	2022	X	X
Hawaii	20%	2020		
Iowa	105 MW		X	
Maine	30%	2000	X	X
Maryland	7.5%	2019	X	X
Massachusetts	4% + 1% annual increase	2009	X	X
Minnesota	10%	2015	X	X
Nevada	15%	2013	X	X
New Jersey	6.5%	2008	X	X
New Mexico	10%	2011	X	X
New York	25%	2013		
Pennsylvania	18%	2020	X	X
Rhode Island	16%	2020	X	X
Texas	2,880 MW	2009	X	X
Wisconsin	2.2%	2011	X	X